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UNCLAS SECTION 01 OF 02 BRASILIA 002240

SIPDIS

USDOC FOR 4322/ITA/IEP/WH/OLAC-SC
USAID FOR LAC/RSD

E.O. 12958: N/A

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SUBJECT: REAL LIFE BRAZIL: THE DOWNS AND UPS OF RUNNING A
SMALL BUSINESS

1. Summary: Despite recent discussion of reforms to aid small businesses and reduce red tape, owners of small businesses in Brazil still struggle with suffocating bureaucratic requirements, unfavorable labor laws and expensive credit. This cable is a case study of a Sao Paulo state small business struggling to overcome these obstacles. Bureaucracy reigns: obtaining official permits to open the small food service business in question took over four months, even with a professional facilitator. The difficulties of firing even non-performing workers under Brazilian labor resulted in a lawsuit against this small business. Credit can be had, but at usurious rates. Despite these challenges, and unlike a large number of other Brazilian small businesses, this entrepreneur has chosen not to operate in the informal economy. End summary.

2. During a recent holiday, ECON OMS visited a long-time Brazilian friend, Roseli, who runs a marmitex restaurant service. "Marmitex" are prepackaged meals wrapped in aluminum foil and sold at a set price.

3. Roseli had worked for 15 years in large multinationals as a financial analyst, and left to pursue her dream of setting up her own business. She identified the marmitex niche in Sorocaba, a town of some 400,000 inhabitants located around 100 kilometers from the city of Sao Paulo, known for manufacturing automotive parts, with the presence of some well-known industrial names like GM, Alcoa and Votorantim. For her customer base, she is targeting small and medium businesses that are mandated by Brazilian law to provide meals to their employees.

4. Roseli was able to start her business by putting together her life savings and money borrowed from a bank at 6-8% interest per month (the interest rate has been steadily dropping and she refinances accordingly). She explained that her bank has no line of credit for small businesses so it was necessary to take out personal loans. She has a partner who invested a small amount and contributes his time; he will receive no salary until the business becomes profitable.

5. In order to start a food business in Brazil it is necessary to get three licenses: one federal, one state and one city. It took about four months to complete the process. Roseli hired a "despachante" (rough translation: legal agent) to do all the paperwork and legwork for her at a cost of 600 Reals (approximately USD200). Technically, a food business should not commence operations before undergoing an ANVISA (Agencia Nacional de Vigilancia Sanitaria - Health Standards Agency) inspection. Although an inspection was requested right away, it was a year before ANVISA agents showed up, and then only because of a complaint made against her by a customer.

6. Roseli rented a storefront and set up an attractive establishment with a small dining area in the rear where walk-ins can eat. She calls her business "Gostinho Caseiro" (Home Cooked Flavor). A standard meal consists of rice, beans, meat, vegetable and dessert. She works hard to vary the meals and make sure they are nutritionally sound and hygienically processed. There are several competitors in the Sorocaba area. All charge the same amount, but as the newcomer, Roseli feels she will be able to win over customers by providing better quality and variety.

7. Roseli started her business in May 2003 delivering 100 meals a day. Volume grew to 200 meals by November, 2003, shrank over the holidays, then grew to 250 meals by March 2004. Roseli's original business plan called for expanding to at least 400 meals a day with current staffing. She has come to the conclusion that she needs to hire a full-time sales person to achieve additional growth.

8. The variable cost to produce meals is 2.20 Reals each, and they are sold to businesses at 3.80 - 4.20 Reals per meal depending on volume purchased. In addition, walk-ins can buy standard prepackaged meals at 4.20 Reals or serve themselves at 10.20 Reals per kilo.

Labor Woes

19. Staff consists of a receptionist/order taker who also supervises the kitchen staff, cook, and three assistants. Basic wage for the staff is determined by the union; R\$430 a month for regular staff and a little more for the cook. These amounts are increased annually based on inflation rates.

110. Labor and personnel issues have been the most problematic for Roseli. Brazilian labor laws favor the employee. Even when an employee is terminated for cause, they can sue their employer through the union. Roseli terminated an employee for cause after carefully documenting unexcused absences and paying her everything that was due. The employee sued anyway, falsely saying that she was forced to work 12 hours a day while signing for 8 hours. The judge awarded her an R\$450 settlement; in addition, Roseli had to pay R\$900 attorney costs.

111. Hiring is also a problem. First, Roseli tried hiring through an agency, but found their prescreening to be inadequate. She then started hiring only through personal references. Currently, she has someone on maternity leave, so she has to maintain the employee on the payroll and pay someone to take her place for four months. INSS will reimburse Roseli the 4 months salary once the employee returns to work.

Hard Times

112. Roseli had hoped to work full time in Sorocaba managing and growing her business, but after just six months, she was forced to return to a full-time job in Sao Paulo, traveling to Sorocaba on the weekends to manage her business. She uses almost 100% of her Sao Paulo earnings to keep the business going.

113. Due to a variety of reasons including personnel issues, utility costs, receivables, and lost business, she almost had to shut the business down, but managed to keep afloat by selling the van she owned outright and then leasing one and hiring the ubiquitous motorcycle delivery boys.

Taxes, Taxes, Taxes

114. As an MPE (Micro and Small Business) under the jurisdiction of SEBRAE (Brazilian Small Business Administration, a division of the Ministry of Development, Industry and Commerce) Roseli pays on a monthly basis: federal income taxes of 3-5% on sales, approximately R\$400-450; IPTU (property tax) of R\$161.00, additional city tax R\$23.00 and car taxes of R\$70. An additional 8% of payroll goes to FGTS (Fundo de Garantia). She deducts INSS monthly contributions from her employees' salaries, but makes no additional contribution.

115. Queried as to whether she ever considered running her business on an informal basis (i.e. unregistered and off the books - effectively, illegal), Roseli emphatically stated that it never crossed her mind. She prefers to have a legitimate business with potential for growth that can be freely advertised to large reputable companies.

116. Despite the mixed economic results to date (NOTE: during a period that coincided with Brazil's worst economic environment in recent memory. END NOTE), Roseli has no regrets, finds her venture very satisfying and spoke optimistically of the future.

117. This cable was coordinated with Consulate General Sao Paulo.

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